1967 AGRICULTURAL FINANCE OUTLOOK

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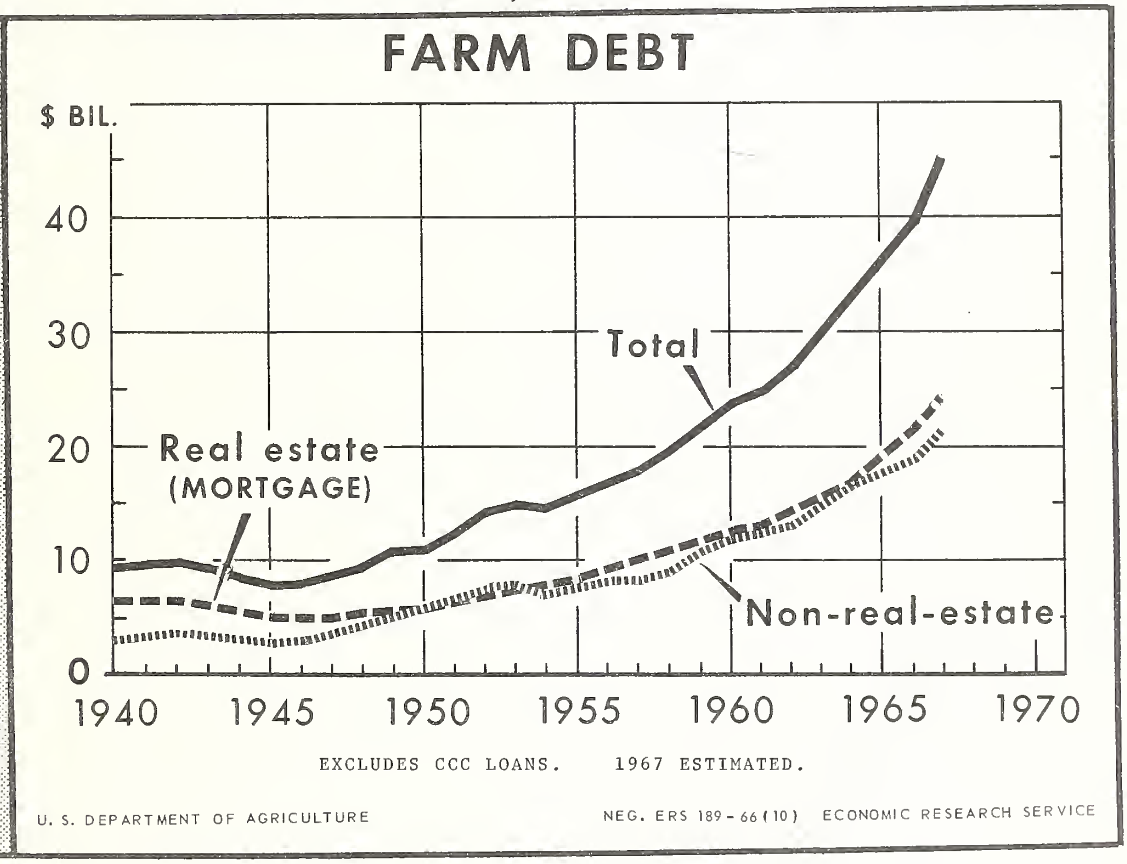

Farm debt (excluding CCC loans) increased an estimated $4.7 billion in 1966. Short-term and farm mortgage debt rose about equally. Farm debt is expected to increase further in 1967--particularly short-term loans needed to finance the production of the desired larger crop output.

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CONTENTS

This report was prepared by the Farm Production Economics Division, Economic Research Service. The report is based largely on information received during late September from the district Farm Credit banks, the State offices of the Farmers Home Administration, the agricultural economists of the Federal Reserve System, the Agricultural Committee of the American Bankers Association, the farm-mortgage departments of several life insurance companies in various parts of the United States, and from the field staff of the Farm Production Economics Division. All these excellent contributions are appreciated.

1967 AGRICULTURAL FINANCE OUTLOOK

Approved by Outlook and Situation Board, October 28, 1966

THE OUTLOOK FOR 1967

With a substantial, further rise in net farm income in 1966, and with their assets showing near-record increases in value for the second consecutive year, farmers generally will enter 1967 in a considerably improved financial condition. Realized net farm income in 1966 is estimated at $16.1 billion--an increase of 13 percent from the previous year and 25 percent from 1964.

The value of farm assets is expected to reach $273 billion on January 1, 1967--about $18 billion higher than a year earlier. This is slightly larger than the $17 billion increase during 1965. The $35 billion increase for the past 2 years exceeds that of any previous consecutive two-year period in the 26 years that balance sheet estimates have been published. Although total indebtedness rose, proprietors' equities increased $14 billion--about the same rate as in 1965.

Farm debt (excluding CCC loans) expanded by a record amount in 1966--an estimated $4.7 billion or 12 percent increase for the year as a whole. Both short-term and long-term debt rose markedly. Borrowing was influenced by favorable price and income prospects, and by an 8-percent boost in production expenditures. Farmers bid actively for farmland, which showed near-record price advances. Purchases of farm machinery during 1966 may turn out to be a fifth or more above the high 1965 level.

Unlike other recent years, the availability of mortgage credit to farmers was materially restricted in 1966, and interest rates increased--particularly during the last half of the year. Supplies of production credit tightened somewhat, and interest rates rose considerably. In late August and in September, most types of central money market interest rates had reached the highest levels since the Twenties. This tightness in the supply of credit and the higher level of interest rates is expected to carry over into the spring months of 1967. By that time many farmers will have planned and arranged financing for their production and investment activities for the entire year.

Cash receipts in 1967 from farm marketings of livestock and crops, assuming normal weather conditions, will probably be slightly above the record amount received in the current year. Government payments, however, will probably show a decrease. With a further rise in production expenses in prospect for the next year, it is likely that realized net farm income in 1967 will be down a little, perhaps as much as 5 percent from the $16.1 billion level of 1966.

Based on the upward trend in prices for goods and services, production expenditures are expected to rise again in 1967. As crop acreages are expanded to meet increased needs, some inputs will be used in larger volume. The higher income received this year and the generally stronger financial situation will encourage many farmers to use their own and borrowed funds to operate at capacity and to make additional investments in machinery and improvements, particularly in areas having labor shortages.

Factors tending to reduce expenditures in 1967 will be the well equipped condition of many farm units and the expected tight credit situation. A larger proportion of producers may secure financing for machinery and other goods from suppliers, and relatively more farmland will be seller-financed. These prospective developments and the funds available from higher 1966 incomes may ease the dependence on borrowed funds from institutional lenders. Further, if net farm income declines slightly in 1967, as seems likely, farmers may be less willing to incur debt at high interest rates to make machinery and other capital expenditures. Any general change in attitude, however, probably would not occur until after mid-1967.

On balance, a larger total amount of credit will be required to finance 1967 farm production than was used in 1966. Providing an adequate supply of short-term and intermediate-term credit to cover seasonal operations and essential machinery needs will be especially important. Fortunately, however, an increased supply of funds for shorter term farm production loans by rural banks may be more readily available because of increased deposits resulting from higher farm incomes and a curtailed volume of real estate loans. Most regular farmer customers will continue to get seasonal financing and many will be able to get needed equipment credit. Marginal or new borrowers will be screened most carefully, and many of these will be referred elsewhere.

Heavy demand from nonfarm sectors of the economy is attracting loan funds from some of the major farm lenders. Farm-mortgage loan commitments of life insurance companies in the third quarter of 1966 were 45 percent below a year earlier. Their volume will probably continue to be sharply curtailed well into 1967. Many commercial banks, as indicated by survey reports, are severely limiting or ceasing to make farm real estate loans. The anticipated reduction in the supply of farm-mortgage credit--used mainly to finance the exchange of assets already employed in agriculture or to refinance existing debts--may not have an adverse impact on 1967 production; but if it persists, it could hamper longer-term production adjustments.

The increased cost of loan funds in the central money market has resulted in an increase in rates charged by production credit associations, Federal land banks, and the banks for cooperatives. Current relatively high rates are expected to continue into 1967. Farm Credit Administration banks and associations are currently screening loan applications more carefully to limit loans to more essential purposes.

Farmers Home Administration has an authorization of $350 million (including a $25 million contingency fund) for operating loans for the year ending June 30, 1967. This compares with an authorization of $275 million in the previous year. However, FHA loans have accounted for less than 5 percent of all farm production loans in recent years.

FINANCIAL DEVELOPMENTS IN 1966

Total farm assets, as indicated by the preliminary Balance Sheet of Agriculture for January 1, 1967, will reach a new high of $273 billion (table 1). The 1967 estimate compares with $255 billion on January 1, 1966--an increase of 7 percent during 1966. While farm debt will have increased considerably further, the rise was much smaller than the increase in the value of assets, permitting a $14 billion gain in equities.

Table 1.--Balance Sheet of Agriculture, Jan. 1, 1966, and estimate for Jan. 1, 1967

Item	Jan. 1, 1966 1/	Estimate for Jan. 1, 1967	Percentage change 2/
ASSETS	Billion dollars	Billion dollars	Percent
Physical assets:			
Real estate	171.1	184.2	7.7
Non-real-estate	62.4	66.5	6.6
Financial assets	21.5	22.6	5.1
Total	255.0	273.3	7.2
CLAIMS			
Liabilities:			
Real estate debt	21.2	23.5	10.9
Non-real-estate debt to:			
Commodity Credit Corporation	1.4	.9	-35.7
Other reporting and nonreporting creditors	19.0	21.4	12.6
Total	41.6	45.8	10.1
Equities	213.4	227.5	6.6

1/ Revised.
2/ Computed from unrounded data.

The increase in the value of farm real estate, as in other recent years, accounts for the major part of the increase in the total value of farm assets. Gains, also, will probably be shown for livestock, machinery and motor vehicles, and for financial assets.

Farm debt continued to expand in 1966 at about the same record rate as in the previous year. Short-term and long-term debt are expected to rise $2.4 billion and $2.3 billion respectively.

The year 1966 was marked by sharply rising interest rates in the central money market. This in turn increased the cost of borrowed funds which Farm Credit Administration banks and associations utilize in making loans to farmers and farm cooperatives. By September 16 of this year, all of the Federal land banks had increased their interest rates to 6 percent, the legal maximum under current statutes. Prior to June 1966 most of the banks had been charging 5.5 percent. The Federal intermediate credit banks raised their discount rates by 3/4 to 1 1/2 percent during the past year. Consequently many production credit associations increased the rates which they charge their farm borrowers.

Interest rates on farm mortgage loans made by life insurance companies have also increased. In the second quarter the average rate charged by 20 companies (holding 94 percent of the farm mortgage loans of all life insurance companies) was 6.16 percent, compared with 5.74 percent in the same quarter a year ago. These rates have been increased further in the last half of 1966.

Average interest rates charged by commercial banks at midyear on all types of agricultural loans and in all sections of the country were higher than a year ago. The change in rates, as reported by the American Bankers Association midyear survey of some 900 agricultural banks, is shown below:

Farm loan average interest rates - midyear 1966
(with changes from midyear 1965)

Type and size of loan	Region					
	All regions	East	Corn Belt	South	Plains	West
	Percent	Percent	Percent	Percent	Percent	Percent
Real estate-----------$10,000--	6.45	6.29	6.28	6.49	6.63	6.90
Change--	(+.26)	(+.21)	(+.25)	(+.27)	(+.34)	(+.39)
Non-real-estate--------$2,500--	6.91	6.64	6.58	6.81	7.34	7.53
Change--	(+.21)	(+.11)	(+.26)	(+.19)	(+.24)	(+.37)
Cattle-----------------$5,000--	6.63	6.45	6.32	6.63	6.87	7.10
Change--	(+.24)	(+.14)	(+.18)	(+.27)	(+.28)	(+.37)

The survey report made the additional comment:

"A year ago fewer than 10 percent of the banks anticipated an increase in interest rates during the latter part of 1965. However, at midyear, in looking ahead at the second half of 1966, approximately one-fourth of these same bankers now expect further increases to occur. An even greater proportion of the banks in the West and Corn Belt expect interest rates on farm loans to continue to rise. For instance, 40 percent of the banks in the West and 30 percent of those in the Corn Belt feel interest rates on cattle loans and farm real estate mortgages will be higher by the end of the year."

It appears that interest rates charged on farm loans by country banks reacted more rapidly to the overall change in the interest rate structure in 1966 than they have in other periods of rapidly rising interest rates. This may be due to the rapid increase in the rates paid on time and savings deposits which has increased their total costs.

Despite the rapid increase in debt in 1966 and recent years, collections on farm loans have continued excellent in 1966--delinquencies and foreclosures are few. The midyear survey of "agricultural banks" by the American Bankers

Association throws additional light on the ability of their borrowers to repay. Reporting banks estimated that 76 percent of their farmer-borrowers will have little difficulty in meeting their debt repayment commitments during the next 12 months:

> "This represents an improvement from the 69 percent reported a year ago. Another 21 percent will meet their credit obligations but only with considerable difficulty. This also represents an improved condition, by being down from 27 percent last year. Also down from 4 percent to 3 percent is the proportion of farmers who, bankers believe, will have to discontinue farming this year because of financial pressures."

The only significant regional variation was in the Corn Belt, where a larger proportion of the farmers (83 percent instead of 76 percent nationally) are expected to be able to easily meet their payments. Altogether, these opinions from banks are in line with other reports indicating a substantial strengthening in the financial position of farmers.

Both realized net farm income and the value of farmers' assets were up in 1966. The improvement registered in the financial position of agriculture during 1966 stems mainly from the increases in prices of farm products and increased Government payments. In 1965 farm incomes improved, largely due to increased prices for meat animals. In 1966 prices of meat animals increased further but prices of many other farm products also advanced. By September crop prices were averaging 6 percent above September 1965--despite sharply lower cotton prices under the new support program. Dairy prices reached the highest level since the Korean War--in September 1966 they were 18 percent above a year earlier--reflecting reduced production and a higher price support level.

Some of the major factors influencing the higher level of prices received in 1966 included: (1) the high level of consumer demand; (2) the sharp reduction in carryover stocks of wheat and feed grains; (3) increased support prices for dairy products; (4) reduced production of pork; and (5) the high level of foreign demand. In the first 8 months of 1966, exports of agricultural products continued to set new records, totaling $4.4 billion, 13 percent higher than the $3.9 billion in the same period of 1965.

As a result of the higher level of prices received, an increase in the physical volume of all farm marketings, and a substantially higher level of Government payments, realized gross income for the first three quarters of 1966 was running at a record annual rate of $49 billion. This is almost 10 percent above the previous record of $44.9 billion for all of 1965. For the first three quarters of 1966 the largest percentage increase in cash receipts from farm marketings, on a regional basis, was shown for the Southern Plains--20.4 percent. The Northern Plains region showed an increase of 17.9 percent and the Corn Belt an increase of 16.8 percent.

The increase in farm income expected for 1966 as a whole will significantly improve the financial situation, both for borrowers and lenders. Higher incomes will enable borrowers to make larger repayments on their existing borrowings and at the same time, to increase their equities as a base for

subsequent borrowings. The increased flow of income into rural areas is expanding deposits of country banks, thus increasing their capacity to meet the expected expansion in the demand for short-term agricultural loans.

Some areas, of course, have not shared in the increased farm income. As in other years, drought, floods, freezes and other hazards adversely affect the output of certain areas (fig. 1). Among the areas so affected in 1966 were: (1) Northeast--southeastern Pennsylvania, southern New Jersey, Delaware and northern Maryland; (2) Appalachian--Virginia and West Virginia; (3) Corn Belt--the southern parts of Missouri, Illinois and Indiana and the eastern part of Ohio; (4) Northern Plains--southwestern Kansas; (5) Mountain--southeastern Colorado and parts of Idaho; and (6) Pacific--eastern Oregon. In these areas, debt carryover will be increased and the financing of 1967 requirements will be made generally more difficult.

A great majority of the outlook respondents reported that farmers continue to enlarge their farms and to make investments to improve their production facilities. Specific purchases most frequently mentioned were larger tractors, combines, cornpickers, grain storage buildings and--in some areas--irrigation equipment. Increased purchases of fertilizer, insecticides, and herbicides also were noted. It was generally reported that farm family living levels are being raised with increased expenditures for consumer durables, housing, and education.

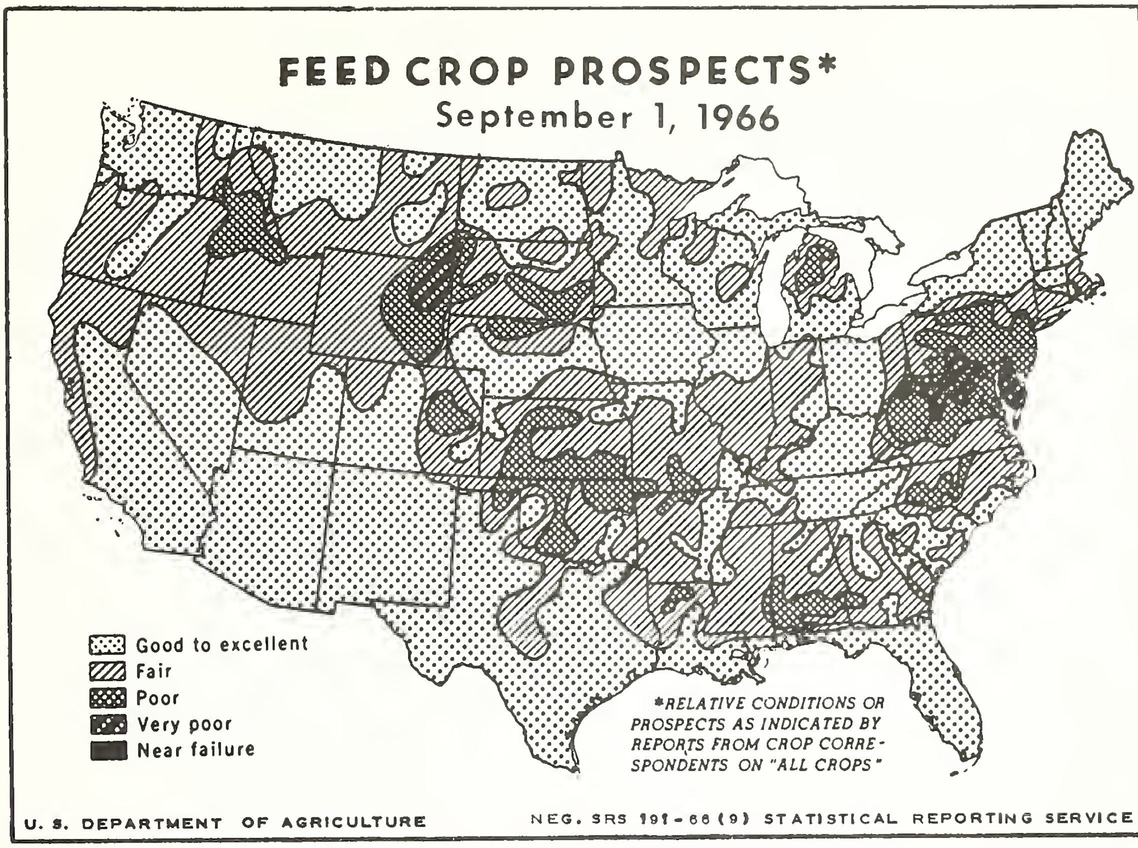
Farm Real Estate

Continuing demand brought about by rising incomes and buyers wishing to enlarge their farms, combined with a declining number of farms on the market, has pushed farm real estate prices to record highs. Comments by real estate reporters in October 1966 indicate that in many areas the number of transfers is down sharply from the same period last year. These reporters expect prices to continue rising into early 1967, but at a less rapid rate than in early 1966, mainly because of the general lack of money available for real estate purchases.

Observations of real estate reporters concerning the availability and cost of credit for farmland purchases closely parallels the tightening of the market for long-term credit throughout the rest of the economy. In general, funds have been limited in supply, at rates averaging 6 percent and over for new loans from most sources. The current situation is likely to continue into early 1967.

Areas that have largely depended on mortgage funds for land purchases in the past may shift to more seller financing, largely through the use of land installment contracts, as funds from commercial sources continue in short supply.

Amounts loaned per acre and the level of appraised value are both rising, but not as fast as market prices of real estate. Thus, many borrowers are finding that larger downpayments are necessary. Because lenders have become more selective in placing loans, borrowers with low equities and those with less favorable earning expectations are finding it difficult to secure credit.


FEED CROP PROSPECTS*
September 1, 1966
Good to excellent
Fair
Poor
Very poor
Near failure
*RELATIVE CONDITIONS OR PROSPECTS AS INDICATED BY REPORTS FROM CROP CORRESPONDENTS ON "ALL CROPS"
U. S. DEPARTMENT OF AGRICULTURE
NEG. SRS 191-66 (9) STATISTICAL REPORTING SERVICE

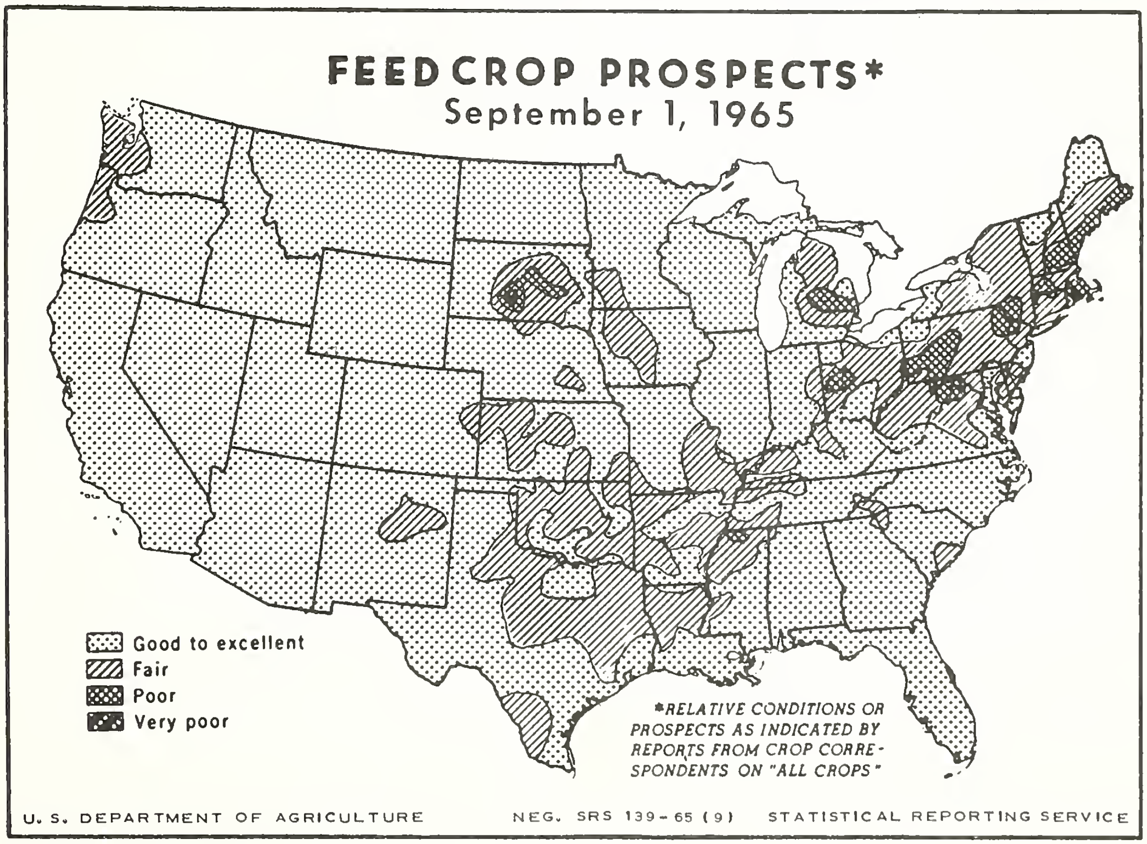

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Figure 1

Buyers with favorable income expectations and large amounts of additional security have, in general, had less difficulty in securing mortgage credit for enlarging their farms. However, first-time buyers and those planning to buy complete farm units have been hard pressed to arrange adequate commercial financing and have turned to the seller for financing. However, many sellers are not in a favorable position to make such loans and will put off selling the land rather than accept a mortgage or land contract.

In some areas, higher interest rates and selective lending have tended to reduce the number of real estate transfers as buyers defer purchases in the hope of finding more favorable terms. However, favorable farm prices, crop production, and a general optimism concerning income expectations have tended to encourage land purchases, particularly for farm enlargement.

Thus, for 1967 farmers will continue to seek additional credit, even at higher interest rates, for land purchases. However, funds available for this purpose will be in short supply and will perhaps reduce the volume of real estate transferred.

As of March 1, 1966, the average value of farm real estate per acre was estimated at $157--8 percent above a year earlier. The average value of land and buildings per farm operating unit reached $57,100 in 1966--$4,900 above the same date in 1965. At the regional level, prices advanced most rapidly in the Corn Belt and in the Delta States, with increases of 11 and 14 percent respectively for the year ended March 1, 1966. All regions showed increases of at least 5 percent over the same date a year earlier.

Farm enlargement transfers have averaged about 60,000 a year since 1959, and continue to account for a larger percentage of the total number of transfers each year. With about the same number of farms increasing their size each year by renting additional land, about 3.5 percent to 4 percent of the Nation's farms increase in size each year.

In the year ended March 1, 1966, about 1.5 percent of the Nation's farms were bought as complete farm units. However, over the past several years, such transfers have represented a declining share of market transactions.

Residual returns to real estate--roughly comparable to returns to stockholders' equities--are expected to average 4.8 percent in 1966, down slightly from 5.0 percent in 1965. The decline resulted mainly from increased labor and management charges and a rise in real estate values which more than offset the higher 1966 income. Projections for 1967 show a further decline in the average return to real estate. This expected decline stems from slightly lower net farm income, and further increases in the value of land and service buildings. However, this drop in the rate of return is not expected to strongly influence the real estate market as long as buyers are optimistic about future returns and the possibility of capital gains from increases in land values.

Farm Income and Expenditures

Outlook for 1967 Income: Realized net farm income in 1967 probably will be less than the near record $16.1 billion for 1966, but will be above the 1965 level. Gross farm income next year is estimated at about the record 1966 level.

Farm production expenses are expected to rise further in 1967 but by a much smaller amount than in 1966.

As more farmers are attracted to full-time nonfarm jobs, farm receipts will be shared by fewer individuals. Nonfarm income received by farm people per capita is expected to be somewhat better than for the excellent year 1966, and per capita disposable income of farm people may be about the same as the record 1966 level.

Cash receipts from farm marketings will likely be up slightly in 1967, due mainly to larger marketings of crops. Cash receipts from livestock and livestock products are expected to be about the same as the high level of 1966. Direct Government payments in 1967 will be smaller under provisions of the 1967 programs.

1966 Income Situation: Realized gross farm income in 1966 will be around a record $49.2 billion--almost 10 percent above the previous 1965 record and 16 percent higher than in 1964. With gross income this year rising faster than expenses, realized net farm income is expected to be about $16.1 billion--13 percent above 1965 and just below the all-time high in 1947. Net income realized per farm for 1966--estimated at $4,900--will be a record high, well above the $4,210 in 1965.

The higher gross income for 1966 reflects an expected 9-percent increase over 1965 in cash receipts from farm marketings and a rise in Government payments of more than a third. The volume of farm products marketed through September 1966 was up about 2 percent from the 1965 period.

Higher prices received by farmers--averaging about 8 percent above 1965 for the first 9 months of this year--helped improve farm incomes in 1966. Prices for livestock and livestock products averaged about 15 percent higher. Crop prices averaged about 1 percent higher. By September 1966, prices for livestock and livestock products and for crops were 10 and 6 percent, respectively, above a year earlier. The physical volume of livestock and livestock products marketed in the first three quarters of 1966 was estimated to be up nearly 2 percent from a year earlier, while crop marketings rose more than 3 percent.

Receipts from marketings of livestock and livestock products during January-September totaled about $18.3 billion--a rise of about 17 percent. Average cattle and calf prices for the period were up about 14 and 21 percent, respectively, despite a 5-percent increase in the combined volume of marketings. Hog prices for the first 9 months of 1966 averaged about 22 percent more, and marketings about 4 percent less than for the same period of 1965. By mid-September, however, hog prices had declined and were about the same as a year earlier. Cattle prices also declined but remained above the September 1965 levels.

Receipts from marketings of milk rose substantially and in the first three quarters of 1966 increased 10 percent over last year. The volume of

milk sold was down 2 percent but prices jumped about 12 percent, to the highest level since the Korean War. Broiler marketings were up about 7 percent; prices were up also--about 6 percent. The 19-percent rise over 1965 in receipts from eggs was the result of higher prices.

Receipts from marketings of crops in the first 3 quarters were estimated at $10.8 billion--nearly $550 million more than a year earlier. Receipts from wheat were up a fourth reflecting both a 15-percent higher average price, and a 3-percent increase in volume marketed. Payments under the 1966 Wheat Program will also rise substantially. Receipts from marketings of corn increased nearly 15 percent, due to slightly better prices and a 14-percent increase in volume of marketings following the record 1965 harvest. Corn production for 1966 as a whole will be slightly smaller than last year. Under the Feed Grain Program producers of feed crops will receive supplemental payments about equal to last year's.

Receipts from farm marketings of cotton through September were estimated to have been down 15 percent from last year due to a 5-percent decline in volume marketed and a 9-percent drop in price. The indicated cotton crop for 1966 is more than one-fourth less than in 1965, reflecting mainly the new cotton program. Under the new program the support price for the 1966 crop of upland cotton was reduced to 20.21 cents per pound from 28.31 cents for the 1965 crop. In addition to the support price farmers who cooperated in the program in 1966 are eligible to receive: (1) a supplementary direct price support payment of 9.42 cents per pound--based on projected production of their domestic allotment (65 percent of their total farm allotment); and (2) payment of 10.50 cents per pound for projected production on the allotment acres diverted to approved conservation practices. Under the 1966 program many producers directed the full 35 percent of their farm allotment. Government payments to producers for participating in the cotton program will offset the loss of income due to lower support prices and reduced cotton acreage.

Tobacco receipts through September were estimated to be about 12 percent above last year. Receipts from soybeans were up nearly a fifth, as prices and volume of marketings averaged 10 percent and 13 percent higher, respectively. Receipts from potatoes were down sharply in the first 9 months of this year as prices dropped to half the very favorable level of 1965; volume marketed was 10 percent greater. Most fruits showed larger returns; important exceptions were oranges and grapes.

For all of 1966, Government payments to farmers are expected to be around $3.4 billion, compared with $2.5 billion in 1965. Cotton and Wheat Programs account for the increase, although Feed Grain payments continue to be the largest of any program.

Production expenses through the first 3 quarters were running at an annual rate of $32.8 billion--up about $2.2 billion from the 1965 rate. The index of prices paid for production items alone rose about 3 percent. Increases occurred in prices paid for feed, feeder livestock, motor vehicles and machinery. Fertilizer prices were about the same. Farm real estate tax rates, wage rates, and mortgage interest per acre, increased about 5 percent, 8 percent, and 12 percent, respectively.

In addition to farm income, farm people receive income from various nonfarm sources that has a significant impact on their financial and debt situation. Nonfarm wages are especially important to many smaller operators who have difficulty making a satisfactory living from agriculture alone. Job opportunities became more available in 1966. Income from nonfarm sources will be around $6.8 billion. Many farmers continued to leave agriculture for full-time nonfarm employment.

Farm Debt

Both non-real-estate and farm mortgage debt rose considerably further in 1966, as farmers purchased large quantities of machinery, livestock and other production goods, and continued to enlarge and improve their farms. Short-term debt rose an estimated $2.4 billion and long-term debt $2.3 billion during 1966 (table 2). With further increases in farm incomes contributing to widespread optimism, farmers used large amounts of credit despite higher interest rates. By midyear, even though farm mortgage loans were still being closed in record volume, there were more and more reports of credit shortages. Many of the mortgage loans made in the first half of 1966 represented commitments made several months earlier, prior to the sharp further rise in rates in the central money market. Credit for short and intermediate-term purposes showed some tightening, reflecting exceptionally strong demands rather than a reduction in available loan supplies.

Farm Mortgage Loans: With returns on many alternative uses of funds higher than those on farm mortgages, and with an increase in policy loans to their own policyholders, life insurance companies drastically curtailed the volume of their farm mortgage loan commitments after the first quarter of 1966. Such commitments, which had been 18 percent higher in the first quarter of 1966 than a year earlier, dropped to 21 percent below the year-earlier quarter in April-June of 1966. In the July-September period commitments were down 45 percent.

The volume of new loans (plus increases in existing loans) of the 20 reporting life insurance companies in the first half of 1966 was 13 percent larger than in the first half of the year earlier. Federal land bank loans ("new money" exclusive of refinancing) made during the first six months of the year rose by 24 percent from the already advanced level of the first half of 1965. The higher rate of gain in land bank lending was probably due in part to their considerably lower rates of interest during the period.

In view of Administration policy to restrain total credit usage and dampen inflationary pressures, the Farm Credit System has initiated more strenuous review procedures on all of their loan applications. Loans made by all of the Farm Credit agencies--Federal land banks, Federal intermediate credit banks, and banks for cooperatives--are to be confined to purposes that could be expected to result in prompt increases in output of farm products or that would substantially reduce costs. Loans for speculative purposes, or for purposes that would result in increased farm output only over a several-year period, are being discouraged. One reporter indicated a decline in loan applications in July-September made to the Federal land banks perhaps reflecting these new restraints.

Table 2.--Farm debt, 1960-66, and preliminary estimate 1967 1/

Year	Debt outstanding Jan. 1			Increases in debt during year					
	Total	Real estate	Non-real-estate	Total	Real estate	Non-real-estate	Total 2/	Real estate	Non-real-estate
	Billion dollars			Billion dollars			Percent		
1960---	23.6	12.1	11.5	1.2	0.7	0.5	5.0	6.1	3.8
1961---	24.8	12.8	12.0	2.0	1.1	.9	8.2	8.4	7.9
1962---	26.8	13.9	12.9	2.9	1.3	1.6	10.7	9.1	12.3
1963---	29.7	15.2	14.5	3.3	1.6	1.7	11.2	10.8	11.7
1964---	33.0	16.8	16.2	3.0	2.1	.9	9.2	12.4	5.8
1965---	36.0	18.9	17.1	4.2	2.3	1.9	11.7	12.2	11.1
1966---	40.2	21.2	19.0	4.7	2.3	2.4	11.7	10.9	12.6
1967 3/	44.9	23.5	21.4						

1/ Excludes Commodity Credit Corporation loans.
2/ Computed from unrounded data.
3/ Preliminary estimate.

The higher interest rates charged on long-term loans may provide restraint on some types of long-term investments, with the possible exception of farmland. One reporter commented that " . . . land becomes available for purchase so infrequently that most farmers who are financially able would tend to commit themselves for purchase even at the higher interest rate . . . ."

The volume of farm mortgage loans made by commercial banks rose less rapidly in the first half of 1966 than a year earlier as banks sought higher-yielding and shorter-term investments, and placed greater emphasis on their short-term farm lending. In the first half of 1966 bank loans secured by farm real estate rose 4 percent compared with 6 percent in the first half of 1965. In contrast other farm loans (excluding Commodity Credit Corporation loans) rose 11 percent in the first half of 1966 compared with 9 percent in the first half of 1965.

Reporters also indicated that some other institutional lenders--like savings and loan associations--who ordinarily make a small volume of farm mortgage loans, had reduced their farm real estate lending activities.

While farm mortgage credit from institutional lenders became less and less available during 1966, there were indications that credit supplied by individuals--mostly farmers selling their farms--was increasing. Reporters in several areas, including the Lake States, Corn Belt, parts of the South, and the Pacific States mentioned increased use of land contracts (and mortgages held by individuals) in financing the sales of farms this year. Sellers of farms provided an estimated 44 percent of the amount of all the long-term credit used to transfer ownership of farms in 1964-65. This figure may have risen during 1966. Persons providing loan funds under a land contract (or mortgage) may be encouraged to do so because of higher interest rates, as well as by the usual motives of facilitating the sale of the land they own, and tax considerations.

When farm mortgage loan funds become more readily available again, there will probably be increased activity by institutional lenders in refinancing some of these purchase contracts or mortgages held by individuals.

Several reporters expressed a belief that purchases of farmland had slowed down because of the shortage of credit, high interest rates, and various other reasons. The high price of land was frequently mentioned even though the demand for land for farm enlargement appeared to continue exceptionally strong. Prospective city purchasers were reported to be less interested in buying farmland because of high rates of return on alternative investments.

The volume of farm mortgage loan recordings in the first half of 1966 increased substantially over the year-earlier period and reached a new record (fig. 2). 1/

Reflecting the changed supply-demand situation for farm loans, there were frequent reports that the competition among lenders to make farm loans--which had increasingly characterized farm lending in recent years--was largely absent in 1966. Lenders, particularly long-term lenders, had many more requests than they could handle and were reported to increasingly be confining their lending to their established customers who desired additional financing.

Non-Real-Estate Loans: The record advance in non-real-estate loans in 1966 reflected increased purchases by farmers of many products and the ready availability of short- and intermediate-term loan funds, particularly in the early part of the year when many farmers arrange their year's financing. Farmers purchased larger quantities of farm machinery and equipment in 1966 than in 1965, and larger numbers of feeder cattle have been purchased at prices higher than during 1965. Both kinds of purchases use a good deal of short- and intermediate-term credit.

In 1965-66 the largest increases in non-real-estate loans were in the Northern Plains and the Corn Belt (fig. 3). The smallest increases occurred in the Northeast, the Delta States, and the Southern Plains.

1/ Because of a change in estimating procedure, the increase in farm mortgage recordings for the first half of 1966 is larger than it would have been under the previous procedure. If the previous method had been used in 1966 the 48 State increase shown would have been 12 percent rather than 17 percent. Regions were not uniformly affected by the change in procedure.

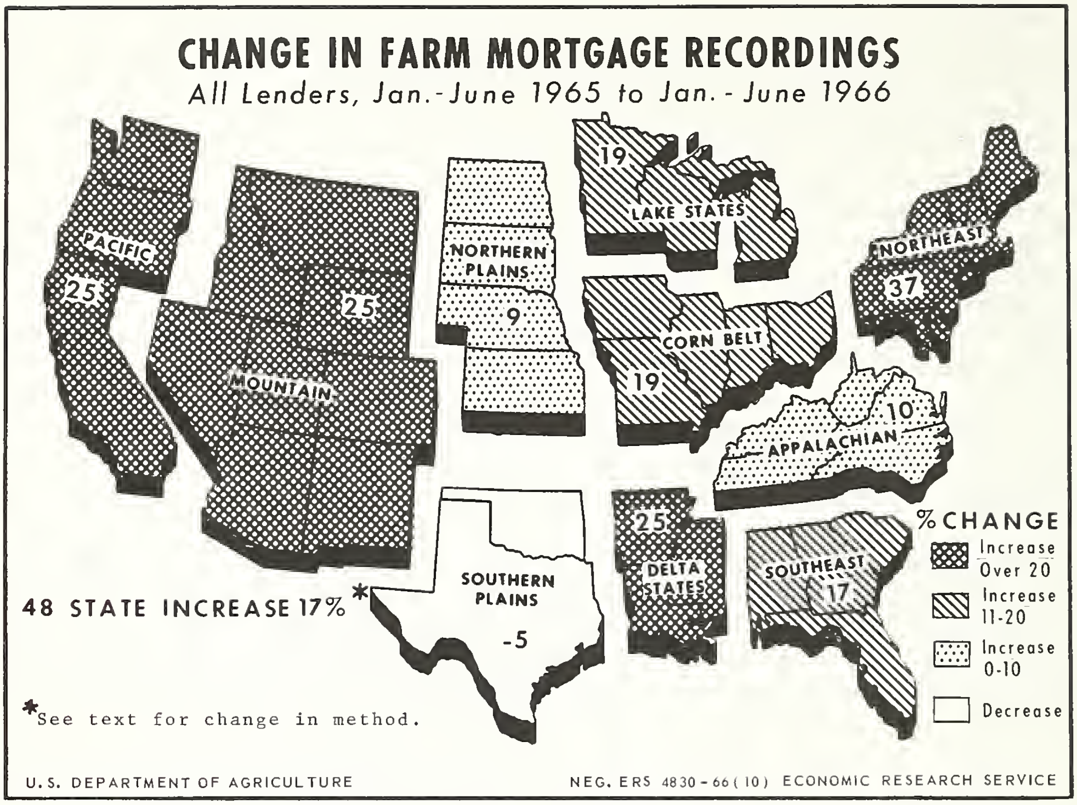


Figure 2

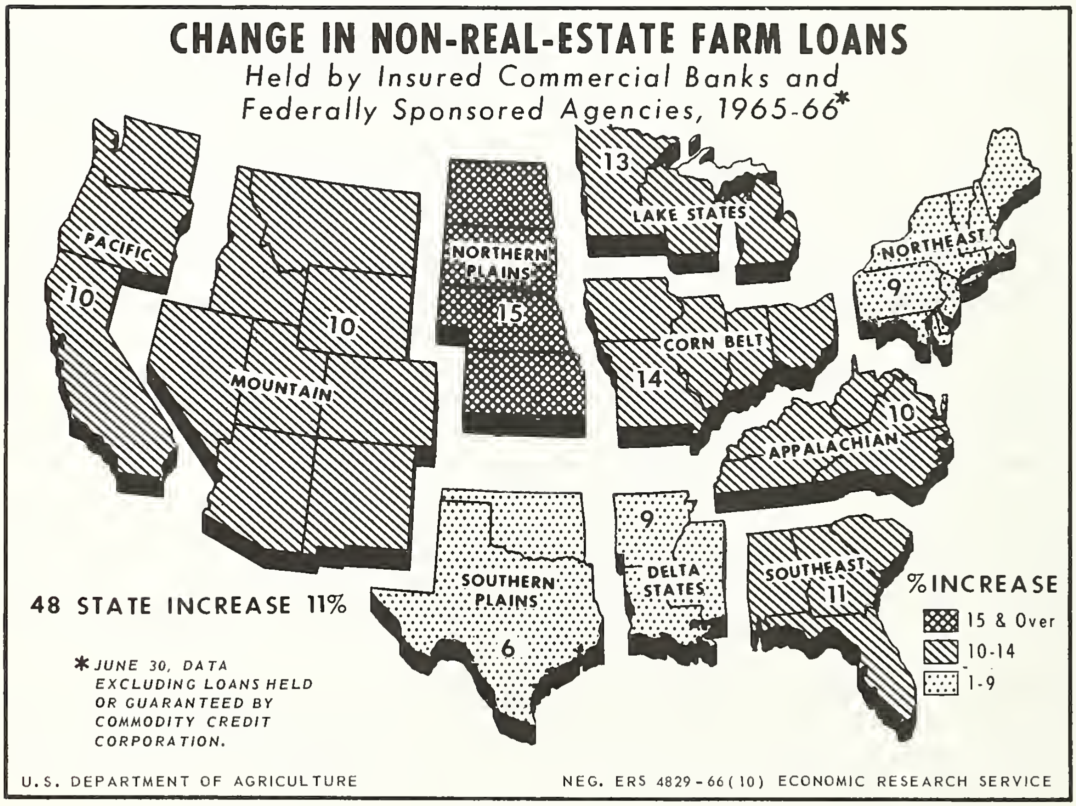


Figure 3

In the first half of 1966 the value of shipments of farm machinery and equipment was nearly one-fourth greater than the already expanded level of the first half of 1965. In the last half of 1965, with farm incomes improving considerably, farm purchases of machinery rose further at that time. Purchases in the fall of 1966 may not have maintained as great a margin over the previous year as occurred in the first half of 1966. While purchases of farm machinery have been greater during 1966, buying of automobiles and trucks by farmers apparently was not as high in 1966 as in the previous year, according to preliminary estimates.

The number of cattle on feed on October 1, 1966, was 8 percent greater than a year earlier, and the cost per head was about 10 percent more. In addition, feed and other costs of cattle feeding were higher in 1966.

One reporter from Texas described the factors leading to greater credit use as " . . . use of larger multi-row equipment, more powerful tractors, and greater use of herbicidal materials and other productive innovations are being considered to reduce or replace hired labor . . . ." Another reporter in the New England area described credit use and also the improved condition of farm loans saying that " . . . capital expenditures for larger dairy barns, increased poultry capacity, and additional acreage and labor saving equipment are frequent. Aroostook County, Maine potato farmers, after two good years, show some financial savings and considerable debt reduction. They have also invested heavily in the equipment which they could not afford . . . in previous years . . . ."

While both non-real-estate and mortgage debts were rising, there was practically no concern expressed that farmers were becoming too heavily encumbered or would be unable to meet their payments. One reporter in the Midwest stated that " . . . lines of credit continue to increase. In most instances production increases accordingly and (this) increases repayment capacity . . . ." Repayments on loans were reported to be good during 1966.

Loans made by production credit associations in the first half of 1966 were 19 percent higher than in the first half of 1965. However, repayments increased considerably and the volume of outstanding loans of the PCA's on June 30, 1966, was 15 percent above a year earlier, only slightly above the year-to-year increase on December 30, 1965. Increasingly in recent months, the PCA's have been screening their loan applications more closely to see that loan funds are confined to essential purposes. However, many PCA short-term loans probably rather quickly lead to increased farm output. Loans made by the PCA's are likely to continue to expand in 1967.

Commercial banks in rural areas, the major short- and intermediate-term institutional source of farm credit, increased their non-real-estate loans considerably in the first half of 1966. While their farm and total loans were rising, so also were their demand and time deposits, reflecting the improved farm income situation in agriculture. Demand deposits at country banks apparently have been rising considerably faster in 1966 than in the preceding year; time deposits increased at about the same rate.

The mid-1966 survey by the American Bankers Association indicated that the loan-deposit ratios of agricultural banks, which had been increasing

steadily for several years, increased very little in the year ending June 30, 1966. Under these circumstances, many banks would seem likely to be able to care for the increasing loan needs of their farmer-customers. Some banks, particularly those closer to large urban centers, may shift their lending in the direction of nonfarm loans and investments where interest rates are higher. Interest rates on farm loans have increased but not as much as some other rates.

Outstanding non-real-estate loans of the Farmers Home Administration rose about 3 percent in the 12 months ending June 30, 1966--a slower rate of increase than during the previous year. FHA provides loans to farmers who are unable to obtain adequate financing on reasonable terms from other sources. FHA non-real-estate loans make up about 4 percent of all non-real-estate farm loans. About one-tenth of FHA non-real-estate loans are emergency loans--the rest are operating type credits. Demands on FHA for financing have been increasing and will probably be greater in 1967 than in 1966, because of limitations placed on loans by some other lenders. Based on current authorizations, it appears that FHA can make about one-fourth more loans in 1966-67 than in 1965-66.

Farmers also obtain large amounts of short- and intermediate-term credit from merchants and dealers and from other "nonreporting" sources. Unlike the individuals on the farm mortgage side who finance the sale of their farms with their own resources, many of these nonreporting creditors must borrow the funds with which to finance their farm customers. Whether they will be able to raise these funds in larger amounts in 1967 will depend on how effectively they can compete for funds. This in turn will depend on the willingness of their borrowers--the farmers buying the machinery, fertilizer, chemicals, and other farm goods these dealers sell--to pay higher interest rates. Some reporters indicated that merchants and dealers were increasing their volume of credit to offset reductions in credits by local institutional lenders; other reporters said suppliers were emphasizing cash sales by giving larger cash discounts.

Increased planting of major crops on previous idled cropland (under the Federal program to meet increasing domestic and foreign needs) has contributed to larger credit use this autumn, as winter wheat is planted, and will add to needs next year with spring planting. If farmers harvest an additional 25-30 million acres--mostly of wheat, corn, and soybeans--this would increase total harvested crop acreages about 10 percent over 1966. Farmers will require additional credit to help finance their increased expenditures for seedbed preparation, seeds, fertilizer, and other similar goods.

Interest Rates: Interest rates on new farm mortgage loans started to rise in late 1965, and continued upward in 1966. In the second quarter of 1966, the latest period for which data were available, rates charged on farm mortgage loan commitments of 20 reporting life insurance companies averaged 6.16 percent--up 0.21 percent from the first quarter rate, and 0.42 percent from a year earlier.

Effective September 16, 1966, the Federal Land Bank of Baltimore increased its rate to 6 percent. This was the last FLB to raise its rate; 10 of the 12 FLB's had raised their rates to 6 percent in June or July. Prior to that time the rate at most banks had been 5.5 percent.

With a 6.05 percent rate on the September 20, 1966 issue of Federal land bank bonds (a one-year issue) borrowers were in the unusual position of being charged less than the cost of the money to the land banks. Under present statutes, the land banks cannot charge their borrowers more than 6 percent. Legislation has been introduced to change this law, but until it is changed the land banks will find it difficult to serve their borrowers' needs and at the same time maintain a strong financial condition.

Interest rates on short-term and intermediate-term borrowings also have risen during 1966. The Federal intermediate credit banks paid 6.20 percent on the issue of debentures on October 3, 1966; a year earlier the cost was 4.35 percent. The intermediate credit banks have raised their discount rates to the PCA's, and the PCA's have increased the rates charged their borrowers by one-half percent or more over the last 12 months. Further increases in rates charged borrowers will occur unless rates on FICB issues decline appreciably. An American Bankers Association survey indicated that commercial banks may have raised their rates about 0.25 percent over the last year. Altogether, reflecting the higher rates, and the increased use of credit, farmers will pay about 14 percent, or $300 million, more in interest in 1966 than they paid in 1965.

In 1967 farmers will probably find credit harder to obtain than in 1966, particularly long-term credit. Interest rates are likely to continue high--at least in the early part of the year, when many farmers arrange their annual financing. Some of the borrowers whose resources and incomes are low may find credit considerably harder to obtain than usual. Lenders will require prospective borrowers to document their loan requests more carefully and to concentrate expenditures on production goods that seem likely to increase output and incomes promptly so that repayments of loans can soon be made.

Faced with generally higher costs and with exceptionally high interest costs, borrowers will find it desirable to plan their outlays carefully, and to consider postponement of expenditures that could be delayed without serious interruption of production. Outlays made later could probably be financed at lower interest costs. Borrowers will also find it to their advantage to arrange their financing at an early date.

Northeast

Regional Highlights

	1965	1966	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept. Total	2,440	2,581	5.7
Crops	858	824	-4.0
Livestock and products	1,582	1,757	11.1
Market value of farm real estate, March 1	8,375	8,691	3.8
Farm real estate debt, Jan. 1	1,172	1,241	5.9
Farm mortgage recordings, Jan.-June	149	204	37.2
Non-real-estate loans held by reporting lenders, July 1	620	679	9.5

Cash receipts from farm marketings for 1966 for the Northeast States will likely be higher than for 1965--due to improved prices and generally higher production. The 5.7 percent gain in the first 9 months' cash receipts is expected to continue for the year as a whole. Dry weather has not been, in general, as severe as in some previous years, but the drought continued in New Jersey, Maryland, Delaware, and parts of Pennsylvania causing shortages in feed supplies. Fall rains, although too late to improve cash crops to a large degree broke the drought and improved the outlook for late fall and early spring pastures. The balance of the area had adequate rainfall during the year and some areas--particularly western New York--harvested one of the largest crops on record.

Higher livestock and product prices, particularly higher milk prices, have been a major cause for higher cash receipts--particularly in New York, Pennsylvania, Vermont, and New Hampshire. The increase in milk prices reflects primarily the tight supply-demand situation. U. S. milk production for the first nine months of 1966 was 4.0 percent less than the comparable period of 1965. Higher price support levels have also been significant. The August 1966 U. S. average farm price for manufacturing milk was 74 cents per hundred pounds higher than a year earlier--an increase of 18 percent.

The drop in cash crop receipts for the first half of 1966 was largely due to a drop in potato prices which affected income in New York and Maine. However, in Maine there has been an improvement in cash farm receipts from dairy, poultry and fruit. An above-average potato crop is expected in Maine. New York's potato crop is expected to be only slightly larger than last year's.

Total 1966 cash farm receipts for Pennsylvania remain uncertain, as the summer of 1966 marked the fifth consecutive year of below-normal rainfall. June and July were the driest on record. By September three-fourths of the 67 counties had been declared drought disaster areas. The southern and southeastern areas--fruit and feed grain areas--were particularly hard hit. However, due to higher milk and livestock prices, combined with increased opportunities for off-farm employment, 1966 farm family income for the State will be higher than 1965.

In Maryland, total cash receipts from farm marketings were 11 percent higher for the first 9 months of 1966 compared with January-September 1965. With higher prices for tobacco and the expected strong demand for soybeans, income from these two crops should offset in part declines in income from decreased production of crops due to drought.

There has been a general increase in the cost of money for both short- and long-term credit. It appears that the increased interest charges will not reduce the demand for short and intermediate credit. However, there is some reluctance on part of farmers to make long-term credit commitments at the higher rates. Reporters indicate a tendency to increase the short- and intermediate-term borrowing to make capital improvements and--to a limited extent--buy land. Many of the commercial banks have decreased real estate mortgage lending but continue to be able to handle the demand for short- and intermediate-credit; however, most other institutional lenders are becoming more selective. The significant decrease by commercial banks and life insurance companies in farm mortgage lending has increased the demand on other lenders. Outstanding farm mortgage loans of the Federal Land Bank of Springfield, Mass., on June 30, 1966 were 12.1 percent above a year earlier compared with an increase of 7.9 percent for the previous year.

The market value of farm real estate for the Northeast Region was 3.8 percent higher as of March 1, 1966, than a year earlier. Reporters are of the general feeling that land values will continue upward but more slowly because of higher interest rates and the scarcity of money.

Regional Highlights

	1965	1966	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept. Total	2,624	2,923	11.3
Crops	687	658	-4.2
Livestock and products	1,937	2,265	16.9
Market value of farm real estate, March 1	11,314	11,893	5.1
Farm real estate debt, Jan. 1	1,972	2,175	10.3
Farm mortgage recordings, Jan.-June	180	213	18.5
Non-real-estate loans held by reporting lenders, July 1	991	1,122	13.2

Cash receipts from farm marketings in all three Lake States--Michigan, Wisconsin, and Minnesota--will be substantially higher in 1966 compared with 1965. Field reporters anticipate a continuation of the higher farm receipts into 1967. Significant factors in the higher farm receipts are good 1966 crops and improvement in prices--particularly milk prices, which are the highest since the early fifties. Operating costs are generally higher but have been more than offset by the increases in prices received and higher crop production. As a result, net farm income in 1966 will be higher than in 1965. In addition, the higher level of industrial production plus new plants in rural areas have offered attractive employment alternatives to many operators of small farms.

Unless there are general adverse factors which significantly decrease production, prospects are for a continuation into 1967 of the higher farm income for the region as a whole. However, the field reports were a little less optimistic in regard to future cash hog receipts. The reports indicated that profits probably will not be as large for 1967 due to expected lower price and a continuing increase in feed costs. When the generally good 1966 corn and soybean crops are harvested and marketed, cash receipts from crops for the entire year will exceed 1965 receipts.

With the drought ended, most livestock farmers in Michigan will not have to purchase grain and hay to supplement their own production for the first time in three years. Total production of most major field crops is estimated to be higher in 1966 than in 1965. Michigan production of apples, pears, and plums was good, but production of cherries, peaches, and grapes was lower than average. In Wisconsin the accelerated rates of dairy herds dispersals and cow slaughter are tapering off because of better feed crops and higher dairy product prices. Minnesota's production of small grain was down due to dry areas primarily in the southwestern and west central parts of the State; however, the prospects are for above normal corn and soybean crops.

Demand for credit continued strong throughout the region, but in the face of limited supplies correspondents reported some lenders are less willing to renew existing or to make new farm operating loans. Some institutional

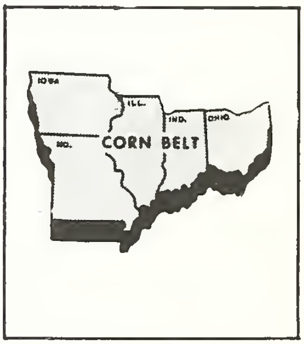
lenders have suspended making farm mortgage loans until 1967. This situation has resulted in an additional number of farmers turning to other credit sources. Farmers Home Administration reports receiving additional applications for loans. Farmers substantially increased purchases of production items, including tractors, machinery, and buildings. New loans for such purchases are not generally restricted and the higher cost of money does not appear to be a deterrent to farmers in making new purchase decisions.

Land values in the region increased substantially although not as much as in the surrounding States. As of March 1966, value of farmland and buildings for the region was 5.1 percent higher than a year earlier compared with an increase of 11.6 percent in the Corn Belt. There appears to be a general feeling that values will continue to increase in 1967, although at a slower rate than in 1965-66, because of the limited availability of funds for farm mortgage loans and the higher interest rates.

Corn Belt

Regional Highlights

	1965	1966	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept. Total	5,974	6,974	16.8
Crops	1,844	2,205	19.6
Livestock and products	4,130	4,769	15.5
Market value of real estate, March 1	35,896	40,050	11.6
Farm real estate debt, Jan. 1	3,829	4,276	11.7
Farm mortgage recordings, Jan.-June	639	761	19.1
Non-real-estate loans held by reporting lenders, July 1	2,344	2,665	13.7



The 17-percent expansion of cash receipts from marketings of Corn Belt farmers during the first nine months of 1966 far outpaced any increase in similar periods of the past decade. Both crop and livestock receipts registered hefty gains.

Farm expenses also increased but likely at a slower pace than cash receipts. Spurred by large income gains, Corn Belt farmers boosted their spending and investing to record levels during 1966.

Dollar sales of such items as tractors, combines and cornpickers during the first half of 1966 exceeded the year earlier level by over one-fourth. Purchases of feeder cattle as measured by shipments into Illinois, Indiana, and Iowa during the same six-month period were up about 25 percent and substantially higher purchase prices boosted these outlays even more. Spending for farm operating expenses was at a high level--especially for fertilizer, insecticides, herbicides and other chemicals. Living expenditures were also reported to be relatively large as farm families stepped up purchases of consumer durables and expenditures for housing.

Farm real estate activity picked up during the year ended March 1, 1966 as indicated by a 14-percent boost in the rate of voluntary transfers. Transfers involving farm enlargement expanded further, accounting for nearly two-thirds of all transactions in the Corn Belt. Due in part to this demand, farmland values in the region registered the largest annual change since 1950-51.

Stepped-up spending and investment rates also boosted farmers' use of credit to record amounts. At midyear, non-real-estate farm loans held by commercial banks and federally sponsored agencies exceeded the year earlier level by almost 14 percent. Farm real estate mortgage recordings during the first half of the year exceeded the comparable period of 1965 by 19 percent. After midyear, strong gains in mortgage lending were indicated for the Federal land banks and individuals, but insurance companies and commercial banks tended to shift an increased part of their funds into other uses.

Despite higher debt levels, correspondents report that in most areas of the Corn Belt, farmers in mid-1966 were in a much stronger financial position than a year earlier. Investments modernized and improved the productive capacity of farms, higher real estate prices boosted asset values, and some of the improved income resulted in increased financial assets of farmers. Time deposits of Midwest "agricultural banks" about midyear stood 14 percent above the year earlier level while demand deposits registered a 7-percent gain. This latter gain compares with an annual average increase of about 2 percent during the preceding 5 years.

Following good income gains of the past two years, most reporters continue to be optimistic--even if income in 1967 does not equal year earlier levels. They indicate that the strong financial position will continue for the majority of Corn Belt farmers into 1967.

Factors frequently mentioned as contributing to possibly slimmer 1967 incomes are expected lower hog prices, narrower margins in feeding cattle, and early fall estimates of a 3 percent smaller corn harvest than a year earlier which will affect marketings in late 1966 and early 1967. Partially offsetting are prospects that the region's soybean harvest will be 3 percent larger than a year earlier and that strong feed grain prices will continue. Projected feed use and supplies indicate a further reduction in feed stocks during the current feeding year.

The main exception to the prospect of continued strong financial conditions occurs in the southern portions of the region and in eastern Ohio where drought has hurt corn, soybean, hay and pasture production. In these areas, larger debt carryover this fall, and larger than usual demands for financing 1967 production are expected. Many counties in this portion of the Corn Belt have been declared drought disaster areas, making some farmers eligible for emergency loans and easing restrictions on the use of diverted areas. However, the situation is not viewed as serious by reporters because most farmers were in a strong financial position due to good income in 1965 and early 1966.

The demand for farm credit is expected to continue to expand next year reflecting large outlays for feeder cattle, another boost in operating expenses, and continued modernization of buildings and equipment to reduce labor costs.

Credit demands will also be boosted by an expansion of wheat and feed grain acreage as allotments for these crops have been increased.

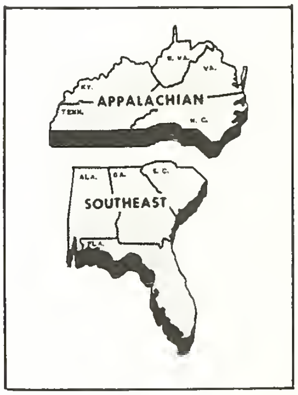
However, due in part to limited supplies of loan funds, most reporters expect credit use to increase at a slower rate than in the past year. Higher interest rates are not expected to deter farm spending much, but limited availability of funds will result in greater selectivity by lenders. Availability of credit is expected to be most limited in areas where drought has been serious, and for purchase of real estate. Nevertheless, most reporters expect there will be enough credit to supplement the financial resources of farmers to finance expanded production.

Tightening of mortgage credit, coupled with higher interest rates, may have slowed the rise in land values in recent months. Many correspondents look for these forces to continue to restrain land value gains in the months ahead.

Appalachian and Southeast

Regional Highlights

	1965	1966	Change
	(Million dollars)		(Percent)
Cash receipts from farm markegings, Jan.-Sept. Total	3,927	4,244	8.1
Crops	1,947	1,926	-.1
Livestock and products	1,980	2,318	17.1
Market value of farm real estate, March 1	22,351	23,481	5.1
Farm real estate debt, Jan. 1	2,601	2,882	10.8
Farm mortgage recordings, Jan.-June	494	560	13.3
Non-real-estate loans held by reporting lenders, July 1	1,382	1,529	10.7



The financial condition of farmers in the Appalachian and Southeastern States improved in 1965 and is expected to improve further in 1966. However, the improvement in 1966 is not expected to be as general throughout the region as a year earlier.

Cash receipts from sales of crops are about the same as last year. Weather conditions have been generally favorable. Exceptions were a late and wet spring in part of North Carolina, South Carolina, and Georgia, that delayed planting and caused abandonment of large acreages of cotton and some tobacco because of poor stands and disease. Much of Virginia and West Virginia was affected by a severe drought during the summer. Although the full force of hurricane Inez in early October 1966 did not hit the mainland of Florida, there was some damage to vegetables in the southeastern coastal areas.

Tobacco is the most important cash crop grown in the Appalachian and Southeast regions. Due primarily to generally good yields, the area's 1966 production of flue-cured tobacco was about 10 percent over that of 1965. The quality is generally better than in 1965 and the price about 10 to 15 percent

Sharp reductions in acreage allotments of burley tobacco--the most important type in Kentucky and Tennessee--were offset to a large extent by higher production and higher prices.

Cotton production in the Appalachian and Southeast regions will probably be about 40 percent less than in 1965, due primarily to heavy participation in the Government cotton program. Besides the reduced acreage, yields for the region as a whole are down about 10 percent from 1965 levels. The Government loan rate will average 20.21 cents per pound for upland cotton lint of the 1966 crop; for the 1965 crop it was 28.31 cents per pound. Much of the lower receipts from sale of the reduced cotton output will be offset by Government payments to cotton growers.

The citrus industry in Florida appears to have made a faster than expected recovery from the disastrous 1962 freeze. The production of oranges this year is expected to be the largest on record. Although prices may be off somewhat, cash receipts from citrus are expected to be higher than last year.

Vegetable farmers in Florida and along the Atlantic seaboard experienced a good year generally. Peach production for fresh use was down about 10 percent but prices were up enough to more than offset the lower production.

Soybean production continued to increase in these regions. In many areas, cash receipts from sale of soybeans in 1966 will exceed those from cotton. Soybean production is expected to increase from 82.2 million bushels in 1965 to 91.6 million bushels in 1966--up 12 percent.

Livestock production continued to expand over the entire area. Prices have held fairly strong for both cattle and hogs and prospects are generally good for 1967. Milk production is up in most States and there has been some advance in the price received by dairymen.

Government payments will total considerably more in 1966 than in 1965 due primarily to payments received by participants in the cotton program.

Income received by farmers and people in farm households from employment off-farm is continuing to play an important role on many farms. Throughout the Appalachian and Southeast, opportunities for jobs in industrial plants and other businesses are becoming more prevalent and are being filled to a larger extent by rural people. Such employment provides steady incomes which may result in higher levels of living and a more dependable capacity for debt repayments.

Cost of farming continues to increase. Greater use of purchased inputs such as fertilizer and chemicals, and higher costs of credit and higher-priced farm labor will keep costs per unit of production comparatively high. Many of the crops produced in these regions--such as cotton, tobacco, citrus and vegetables--still require heavy use of hand labor. Family living costs continue upward as a result of using more purchased supplies, better education and other items consistent with higher standards of living.

Except in scattered localities, the debt position of farmers in the region is better than in recent years. The total amount of debt is relatively

higher, but generally the capacity for repayment is good. During the year, large amounts of credit from institutional lenders and merchants and dealers were used for production purposes and for investment in labor saving equipment. The supply of both domestic and foreign laborers has decreased rapidly in the last few years. This trend is not expected to reverse itself, and therefore heavy investment in machinery is expected to continue.

Use of credit for purchases of farm real estate and major farm improvements was unusually high during the latter part of 1965 and early 1966. This type of lending activity lessened sharply during the remainder of the year as the availability of long-term loan funds dropped considerably.

Interest rates rose sharply during the year. Credit for production purposes was available in adequate amounts during the spring and summer.

Following the second consecutive year of favorable incomes, most commercial farmers in the Appalachian and Southeast States will enter 1967 in an improved financial condition. Gross farm income in 1967 is expected to continue relatively high but costs will also increase. Cotton acreage will probably be about the same as in 1966; there is some uncertainty about changes in tobacco allotments. Soybean production will probably increase further and better returns might be expected from fruit and vegetable crops. Sustained prices for livestock and milk are in prospect.

Many lenders expect the demand for credit to continue strong, in spite of interest rates which will probably remain high through the heavy lending seasons. Indications are that banks, production credit associations and the Farmers Home Administration will screen loan applications more closely. Loans will generally be restricted to production purposes and for the more essential equipment. Loan funds for purchase of farmland by sales contracts between buyers and sellers will become more common.

The exodus of the smaller producers from farming continues at a substantial rate. Most of the production assets of these farmers are being combined with those of the larger and stronger units that remain.

Delta States

Regional Highlights

	1965	1966	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept. Total	1,075	1,137	6.8
Crops	432	374	-13.4
Livestock and products	643	763	18.7
Market value of farm real estate, March 1	7,179	8,121	13.1
Farm real estate debt, Jan. 1	964	1,110	15.1
Farm mortgage recordings, Jan.-June	223	273	25.0
Non-real-estate loans held by reporting lenders, July 1	610	665	9.1

The farm economy of the Delta Region for 1966 is expected to show improvement over last year. Cash receipts from farm marketings for the first 9 months of the year were up about 7 percent from the same period in 1965.

Cash receipts from sale of crops account for most of the annual farm income of the Delta Region--averaging about 60 percent of the total for the last five years. Crop production in 1966 is generally good and with a favorable fall harvesting season gross farm income will be higher than in 1965 which was also a good year. (The amount of cash receipts given in the table above include very little of the receipts from sale of 1966 crops of cotton, rice, or soybeans--the three more important cash crops in the region. Much of these crops is harvested and sold after September.)

Cotton is the main crop in the region. Acreage has been reduced sharply from 1965 (about 30 percent), due primarily to heavy participation in the cotton program. Except in scattered areas, especially some sections in Mississippi, yields are expected to set new high records. The Delta States are expected to produce about 2.9 million bales of cotton in 1966 compared to 4.0 million bales in 1965 and average of 3.9 million bales during the five-year period 1960-64. The average market price received by farmers for cotton lint in August 1966 was down about 27 percent from a year earlier. In contrast to cotton lint, the price of cottonseed is about 40 percent higher than last year.

Production of soybeans is increasing rapidly in the Delta region. Although the farm price for soybeans is down somewhat from preharvest levels, the October 15, 1966 average price is still almost 50 cents per bushel or about 20 percent higher than a year earlier. Increased acreages, plus good yields and higher prices of soybeans, will also help to offset much of the reduction in income from cotton.

Rice, an important Delta region crop, is expected to exceed 1965 production by about 7 percent. The price is roughly comparable to that of last year's crop.

Receipts from livestock and livestock products are substantially above year earlier levels. With favorable prices, especially for beef cattle and

milk, and with good prospects for feed grains and pasture conditions, most livestock farmers are in improved financial condition. Broiler production, which is especially important in Arkansas, is expanding.

Reporters consistently mention that off-farm income, either from work on other farms or from employment in local industries, is continuing to increase and is becoming an increasingly important factor in farm family incomes.

Receipts from Government payments will increase this year due mostly to heavy participation in the cotton program.

Farm production costs increased in the Delta region in 1966. The use of proportionately more purchased inputs continued to rise.

The use of farm credit in the Delta States increased sharply during 1966. During the latter part of 1965 and the early months of 1966, investment for expanding farms to more economic size, and for more and larger pieces of machinery rose rapidly. However, as the year progressed, and interest rates rose and loans became more limited, the increase of this type credit slowed.

Good production and favorable prices of farm products in 1965 and again in 1966 helped to place most Delta farmers in sound financial condition. Farm debt for the region is comparatively high, but reports from various lenders indicate few farmers are in a difficult debt position and repayments on loans are good.

Expectations for 1967 are that the strong financial conditions will continue. Cotton and rice acreages will probably be about the same as in 1966. Larger acreages of soybeans and probably grain are expected.

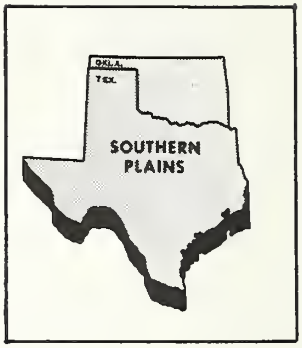
Cost of production will likely continue to increase. The higher cost may lessen the increase in net farm income which has been fairly rapid the last two years. Receipts from livestock and livestock products should be favorable.

Credit for production and for capital investments will likely be in high demand. The supply of loanable funds, however, is expected to be much less during the first part of 1967 than in 1966 or for recent years. This restriction on total supply of credit will probably keep interest rates high for much of the year, and, also, cause a telling shift in the kind of credit extended. Loans for production items and for machinery are expected to continue to be made in large volume. However, institutional lenders such as banks, production credit associations and the Farmers Home Administration will tend to screen applications for credit more closely and will probably limit the majority of their loans to more strictly productive purposes. Merchants and dealers will probably be more active in extending farm credit.

Loans from farm mortgage lenders--particularly insurance companies and commercial banks--will likely be reduced from the amount made in recent years. Individual sellers may facilitate some farmland transfers by selling on sales contracts. For the year ending March 1, 1966, the Delta States evidenced the highest increase in market value of farm real estate (13 percent) of all regions in the Nation. Indications are that these values will continue upward, although probably not at such a rapid rate.

Regional Highlights

	1965	1966	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept. Total	2,020	2,433	20.4
Crops	962	1,021	6.1
Livestock and products	1,058	1,412	33.5
Market value of farm real estate, March 1	20,835	21,779	4.5
Farm real estate debt, Jan. 1	1,848	2,071	12.1
Farm mortgage recordings, Jan.-June	345	329	-4.6
Non-real-estate loans held by reporting lenders, July 1	1,235	1,308	5.9



Over all crop production is less than last year. The cotton crop is estimated to be about 4 million bales this year, compared with 5 million in 1965 and a 1960-64 average of about 4.8 million bales. This is due both to a decrease in acreage under the new cotton program, and to lower yields per acre. Wheat production this year was below that of 1965, but about at the average for the recent 1960-64 period. Sorghum production this year was about 14 percent above last year, and 40 percent above the average for 1960-64. Cattle and calves on feed in the region as of July 1 were about 44 percent above the same period in 1965. This increase is above the upward trend in cattle and calves on feed that has been in effect since 1960. For the year through September, cash receipts for crops and livestock are the highest of the last ten years.

Expenditures for family living and production costs are somewhat higher than last year, while machinery purchases are considerably higher than a year ago.

Reports indicate that the current strong demand for credit will continue into 1967. The debts of farmers and ranchers reportedly have increased in 1966, but not as much as the market values of their assets, so that they generally show an increased net worth. Credit is tight throughout the area, and interest rates have increased over a year ago. The land market is dominated this year by farmers and ranchers who are increasing the scale of their operations. The nonfarm investors are not as important in the land market as in recent years, according to correspondents in the area.

The supply of money for farm mortgage loans is more limited than at any time in recent history, according to lender reports. Reports from mortgage lenders in Texas indicate that farm and ranch investors will probably postpone large capital investments that do not tend to increase current production.

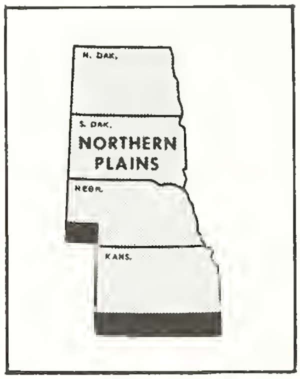
Reports from Oklahoma indicate that there has been a large increase in investments in irrigation equipment in the panhandle region this year. Indications are that investments in other machinery and livestock are about the same as 1965.

Lenders in the region feel that high interest rates will reduce the purchase of stocker cattle this fall for winter feeding, and will limit new machinery purchases for the 1967 crop season. But the financial outlook for the Southern Plains Region for 1967 is generally good.

Northern Plains

Regional Highlights

	1965	1966	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept.			
Total	2,795	3,296	17.9
Crops	973	1,129	16.0
Livestock and products	1,822	2,167	18.9
Market value of farm real estate, March 1	16,834	18,234	8.3
Farm real estate debt, Jan. 1	1,630	1,827	12.1
Farm mortgage recordings, Jan.-June	233	253	8.6
Non-real-estate loans held by reporting lenders, July 1	1,588	1,827	15.1



Most farmers and ranchers in the Northern Plains are in a strong financial position this year. Cash receipts from all farm marketings through September were the highest of recent years. While cash receipts from livestock were the highest for many years, receipts from crop sales were slightly below those in 1958, 1959, 1962, and 1963, and about 13 percent below the high established in 1961. Wheat production for 1966 is estimated at 5 percent below last year but 5 percent above the 1960-64 average for the region. The wheat crop this year was smaller in Kansas and the Dakotas because of drought in some areas, but the Nebraska crop was 82 percent above last year, and 43 percent above the 1960-64 average. Corn, soybean, and sorghum production for the region are expected to be somewhat larger than a year ago when crops on average were good.

In North Dakota, production of principal crops was the highest of record this year, although blight is expected to hold the potato crop about 16 percent below last year. Small grain yields in South Dakota generally were down due to adverse weather, while corn, sorghum, and soybean yields were better than last year. In Kansas the dry weather cut wheat production 20 percent from 1965, and corn production 10 percent. The exceptionally large wheat crop in Nebraska was of excellent quality and prices were higher than last year.

Cattle numbers in the region apparently have not changed much from last year, but prices throughout the Northern Plains are about 6.5 percent higher than in 1965. Prices of steers and heifers averaged about $23.80 per cwt. on October 15 this year.

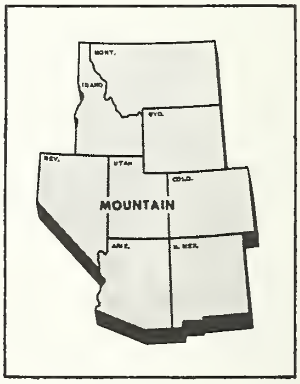
Prices paid for production inputs and capital goods, including land, are continuing to increase, according to reports from the area. Observers believe that the upward trend in land prices helped maintain the equity positions of area farmers and ranchers.

The demand for agricultural credit has been strong in 1966. It is expected to continue strong into next year. Farm mortgage lending is expected to be less, at least in the first half of the year, while operating credit may rise more than in 1966. The amount loaned per borrower is expected to be larger next year than this, reflecting the continuing increase in scale of farms in the area. Dealer financing is reportedly increasing because of tighter supplies of credit from local institutional sources. Correspondents indicate that the debt position of farmers and ranchers in the area improved during 1966. Informants believe cash grain farmers in southeastern South Dakota, and in other localized parts of the area, will be hard pressed for funds this winter due to the combination of a poor crop locally, and the continuing upward movement of costs. But farmers and ranchers in other parts of the Northern Plains will probably show a profitable year, and a stronger net financial position for 1966. Wheat farmers are expected to increase their seeded acreage under the new allotment program as much as 15 to 20 percent above 1966 acreages, respondents estimate. Operating credit needs will increase for many of the farmers expanding their acreages.

Mountain

Regional Highlights

	1965	1966	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept. Total	1,743	1,931	10.8
Crops	638	641	.5
Livestock and products	1,105	1,290	16.7
Market value of farm real estate, Mar. 1	13,490	14,301	6.0
Farm real estate debt, Jan. 1	1,591	2,048	28.7
Farm mortgage recordings, Jan.-June	254	319	25.5
Non-real-estate loans held by reporting lenders, July 1	1,299	1,423	9.6



Cash receipts from crop marketings in January-September 1966 were about 1/2 percent above the same period a year ago and not substantially different from the years since 1958. Cash receipts from livestock were 17 percent above last year and substantially higher than those of other recent years. Total cash receipts through August of 1966 were about 11 percent above a year ago, and a new high for many years.

The condition of fall pastures in the area is poorer than a year ago, except for New Mexico and Arizona. Hay production was also less than last year except in the southern part of the region. In some areas, reporters indicate that the shortage of forage has resulted in the liquidation of livestock from range herds. For the Nation as a whole, cattle inventories declined slightly in 1965, and a further decline is expected this year. Cattle numbers in the Mountain region, however, continued to increase at least into early 1966. While reduced grass and hay production may check this inventory increase in some areas, prices are favorable and this should be an incentive to continue the build-up in livestock numbers for the area as a whole.

Financial savings and reserves of farmers and ranchers in the area are generally above the levels of a year ago. Informants feel that the tight supply of farm mortgage credit from institutional lenders and continuing high interest rates will probably cause a continuing increase in the seller financing of land purchases. The overall demand for credit is strong in the area, and will probably continue to be so into 1967. At the end of June, the volume of outstanding farm loans of commercial banks in the Kansas City Federal Reserve District was 13 percent above a year earlier, and 18 percent above the same date in 1964.

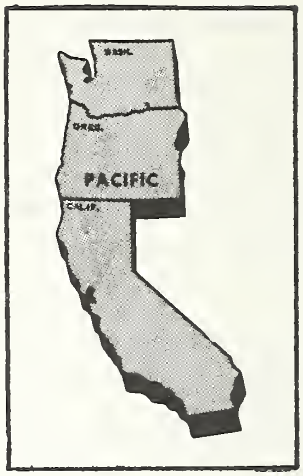
Although areas of southeastern Colorado were hurt by drought, the wheat crop this year was about double the poor crop of 1965, and slightly above the 1960-64 average. Pasture and hay production was somewhat lower in Colorado than last year, and there has been some forced liquidation of livestock as a result. Drought and a late spring frost hurt crop yields in Utah, though the financial position of farmers and ranchers in the State as a whole is reported to be about the same as last year.

Agricultural production in Idaho is lower this year than last, but still above average. The 1966 production of winter wheat was about one-fifth lower than last year's record high, while spring wheat production was down about a third, and barley down about one-tenth. Range conditions in Idaho are poor, and there has been some forced marketing of cattle from the State.

Dry weather in southern Idaho and southeastern Montana this year led to lower agricultural production, and a reported decrease in the savings of farmers and ranchers in the two areas. Wheat production in Montana was below that of last year, but well above the 1960-64 average.

Reporters indicate that farmers and ranchers were forced to dip into accumulated savings in the drought areas of Idaho, Montana, and Wyoming. With prospects for lower income and slower debt retirement, the financial condition of some farmers in these areas will not be as good as last year. Farmers in other areas, such as wheat producers in north central Montana and most of Colorado, were more fortunate with precipitation and reported better yields than last year. Their financial position has improved this year.

Pacific



Regional Highlights

	1965	1966	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, Jan.-Sept. Total	3,219	3,463	7.6
Crops	1,867	1,932	3.5
Livestock and products	1,352	1,531	13.2
Market value of farm real estate, March 1	23,168	24,540	5.9
Farm real estate debt, Jan. 1	3,049	3,540	16.1
Farm mortgage recordings, Jan.-June	319	400	25.1
Non-real-estate loans held by reporting lenders, July 1	1,248	1,376	10.3

Farm income in the Pacific region 2/ is much better this year on average for the majority of farmers despite sharp increases in costs of labor, equipment, supplies, credit, and taxes. Great variation exists among areas and types of farming but on the whole both output and prices improved.

Most producers of citrus, deciduous fruit, nuts, vegetables, milk, eggs, and fed cattle will receive higher incomes but returns from cotton, and grapes and some other fruits for processing will be lower. Cattle ranchers, particularly in eastern Oregon have been badly hurt by drought.

Since the Bracero program was curtailed last year qualified farm labor has become relatively scarce and more costly but apparently no large crop acreage has gone unharvested. Heavy investment in machinery and equipment has eased the situation. In fact, acreages of many vegetable crops were larger in 1966 than in 1965. Acreage of tomatoes for processing in California was up a fourth and an estimated three-fourths of the crop was harvested mechanically. Since last year the number of tomato harvesters was expanded from about 250 to 800 at a cost probably exceeding $20 million. Large machinery expenditures have also been made in connection with other crops.

Farm families generally are living as well or better than last year and their homes and properties are being maintained in good condition. Also, the majority of farmers have probably improved their equities and financial condition. Ranchers in drought areas are exceptions as are small operators who depend solely on farming for income. Off-farm jobs are more plentiful, however, and are providing additional income opportunities. Off-farm income is lower in sections of Oregon and Washington where activity in lumbering and sawmills is being curtailed because of the slack housing industry.

Lenders were able to meet much of the increased demand for farm credits during early 1966. By midyear, however, the credit supply tightened considerably and interest rates rose. The tightening was most severe by life insurance companies and by savings and loan associations which are important farm mortgage

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2/ Excludes Alaska and Hawaii because of lack of data.

lenders in some areas. Most all types of lenders appear more selective in making loans. A substantial increase in seller financing of farm sales reportedly has occurred since the curtailment by conventional lenders.

High interest rates have not slowed the demand for short-term credit but are causing many farmers to think twice before borrowing on long term. As a result, some farmers are postponing major improvements and capital purchases.

Repayment of loans has been as good as last year and delinquencies are small. The few foreclosures reported were not usually the result of income difficulties. Forced liquidations also were relatively rare. However, some ranchers in the drought areas of eastern Oregon were deeply culling their herds.

Most lenders surveyed foresee about the same or greater demand for credit in 1967 as in 1966. Lenders' funds, however, will continue restricted, lending will be selective, and interest rates will remain high. Interest costs may rise most sharply for those whose 1966 lines of credit and rates were fixed early in the year. Debt, particularly farm mortgage debt, may not increase as much in 1967 as in 1966 because of credit restrictions and fewer farm transfers. California farmers made heavy equipment investments during the past year to cope with the labor shortage so that large amounts of equipment credit may not be so necessary in the coming year. However, more efficient machine harvesting is being developed for a variety of fruits and vegetables, and eventually will be adopted at considerable cost by the large growers.

The primary emphasis by both producers and lenders in early 1967 will be the essential credit needed for production expenditures. Until the money situation eases lenders may ration credit for other purposes. Also, some smaller, low-income farmers will have more difficulty getting loans. Increased numbers of these will turn to the Farmers Home Administration for assistance.

Puerto Rico

The financial condition of many Puerto Rican farmers is slightly weaker in the fall of 1966 than in 1965. Much of the poorer condition is the result of lower than usual production of the three major cash crops--sugarcane, coffee, and tobacco.

Because of adverse weather conditions the production of sugarcane was less than the average for the last several years. Of greater importance, however, was the extremely low sugar content of the sugarcane. This has resulted in the lowest production of sugar in many years. Inclement weather also hurt coffee production. This crop had been making a good recovery from relatively low production in recent years. The 1966 tobacco crop was reported to be about half the amount produced in 1965. This resulted not so much from weather damage but from reductions in marketing quotas.

The bright part of the agricultural picture is the livestock industry. Production of livestock and livestock products--especially milk--has increased significantly in recent years. Favorable prices and markets have improved the financial condition of these farmers.

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AFO-6 -- Agricultural Finance Outlook

Industrial expansion on the island continued. Many workers have left the farms seeking higher paying jobs in industry thereby leaving a critical shortage of farm labor. This has forced farmers to invest heavily in labor-saving machinery and to pay increasingly higher wages in order to maintain their labor forces.

Special programs of the Federal Government and the government of the Commonwealth of Puerto Rico are combining to raise the standards of living for rural families. These government efforts are strengthened by employment of rural people in industrial plants.

The availability of credit in Puerto Rico is reported adequate but at higher interest rates. Expectations are that credit for production purposes in 1967 will be adequate but the total cost will be higher. The poor production of sugar, coffee and tobacco in 1966 is expected to cause more than the usual number and amount of renewals of loans. In general, farmers will enter 1967 in a moderately weaker financial condition. Demand for credit will probably be high, reflecting both the lower cash reserves of many farmers and the higher costs of production. The latter will be due mostly to higher labor costs and heavy investment in machinery and equipment.